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FILED
JUL 28 2004
Department of Insurance
State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

In the Matter of:	)	
	)	
FARM BUREAU MUTUAL INSURANCE COMPANY OF IDAHO	)	ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2002
	)	
	)	Docket No. 18-2260-04
Certificate of Authority PC531	)	

Whereas, the above described Report was completed by examiners of the Idaho Department of Insurance, signed the 21ST day of June, 2004 by Dean Cassens, CFE and filed effective June 21st, 2004.

After carefully reviewing the above described Report, and good cause appearing therefor, it is hereby ordered that the above described Report is adopted as filed. Further, the above described Report is incorporated herein by reference, which includes the findings and conclusions supporting this Order.

Based upon the Waiver signed by the Company dated June 28, 2004, this is a final Order, and the Company has also waived its rights to reconsideration and appeal / judicial review of this Order.

IT IS HEREBY ORDERED that the examination report be adopted and filed as an official record of the Department.

Dated and Effective this 8th day of July, 2004.

Mary L. Hartung

Mary L. Hartung, Director
Idaho Department of Insurance

CERTIFICATE OF SERVICE

I hereby certify that on this 8th day of July, 2004 I caused to be served the foregoing Order Adopting Examination Report on the following parties in the manner set forth below:

Farm Bureau Mutual Insurance Company Paul Roberts, Treasurer 275 Tierra Vista Drive Pocatello, Idaho 83201	_x_ certified mail ___ first class mail ___ hand delivery ___ telecopy
Georgia Hill, Bureau Chief/Chief Examiner Idaho Department of Insurance 700 W. State St., 3rd Floor Boise, Idaho 83720-0043	___ certified mail ___ first class mail _x_ hand delivery ___ telecopy

Cheryl Karnowski

Cheryl Karnowski
Management Assistant

DEPARTMENT OF INSURANCE

STATE OF IDAHO

REPORT OF EXAMINATION

of

FARM BUREAU MUTUAL INSURANCE COMPANY OF IDAHO
Pocatello, Idaho

as of

DECEMBER 31, 2002

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State of Idaho
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DIRK KEMPTHORNE
Governor

MARY L. HARTUNG
Director

Pocatello, Idaho
June 21, 2004

The Honorable Mary L. Hartung
Director of Insurance
700 West State Street
Boise, Idaho 83720

Madam:

Pursuant to your instructions and in conformity with the provisions of the Insurance Laws and Rules of the State of Idaho, an examination has been made of the administrative affairs, books, records and financial condition of

FARM BUREAU MUTUAL INSURANCE COMPANY OF IDAHO
275 TIERRA VISTA DRIVE
POCATELLO, IDAHO 83201

hereinafter referred to as "the Company," at its offices in Pocatello, Idaho. Also the Idaho Department of Insurance is hereinafter referred to as the "Department."

The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covers the period January 1, 1999, through December 31, 2002, and includes such prior transactions and any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The examination was conducted in accordance with generally accepted examination procedures and accounting guidelines. Verification and valuation of assets, determination of liabilities and reserves, and an analysis and review of such other accounts and records appropriate to the examination were also performed.

There was some reliance placed upon independent auditor's workpapers and reports for this examination. The audit workpapers as of December 31, 2002 were provided by Deaton & Company, Chartered, the Company's certified public accountants. When audit workpapers were utilized during the examination, such utilization was denoted on the workpaper.

A letter of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from management.

PRIOR EXAMINATION

The prior examination was conducted by the Idaho Department of Insurance, and covered the period of January 1, 1995 through December 31, 1998.

The Comments and Recommendations contained in that report and the Company's response to those comments and recommendations are as follows:

1. Insurance Holding Company System. Farm Bureau Finance Company, a subsidiary of the Company, provided premium financing to Company policyholders. The financing plan provided for the policyholder to assign all rights and interest to any return of unearned premium, which may become payable. The Company guaranteed payment to the finance company in the event of default on the part of the borrower. This Company guaranty was in verbal form only. It is recommended that the Company establish a written agreement for the guaranteed payment to the finance company in the event of default on the part of the borrower.

   Company's Response. A written agreement between Farm Bureau Mutual Insurance Company of Idaho and Farm Bureau Finance Company was completed on September 7, 1999. This agreement along with the Holding Companies Form D was sent to the Department of Insurance September 20, 1999.

2. Management Agreements. The execution of these agreements partially met the recommendations made in the prior examination, in that the Company entered into written agreements with each of the subsidiaries. However, the agreements did not indicate the fees, which are to be charged. It is recommended that the file be maintained for each agreement, which documents the annual advance fee to be charged (as agreed upon in advance between the Company and the subsidiaries).

Company's Response. Separate files have been established for each company with a schedule showing the fees agreed upon for the current year.

3. Office Lease Agreements. The Company rented office space from its subsidiary, Western Community Investment Company. As of December 31, 1998, the Company did not have a written agreement with the investment company detailing the rental terms. It is recommended that the Company execute an agreement that should be filed for notification purposes with the Department of Insurance.

   Company's Response. Lease agreements between Farm Bureau Mutual Insurance Company of Idaho and Western Community Investment Company were completed in October of 1999.

4. Office Lease Agreements. In addition, the Company had approximately 40 lease agreements with counties throughout the State of Idaho for its county offices. It is recommended that the Company review all county lease agreements for updating of provisions and language and subsequently file any amended agreements with the Department of Insurance.

   Company's Response. Lease Agreements for the county offices will be reviewed at the renewal of each lease with necessary updates made at that time.

5. Policy Forms and Underwriting Practices. During the period under examination, the Company filed a number of endorsements and revised policy forms for various lines of coverage. A listing of policy forms approved by the Department of Insurance was compared to the forms provided to the examiners by the Company. It was determined that the policies currently being used were altered and had not been filed with the Department of Insurance. It is recommended that the Company review all policies currently in use and submit the updated policies for filing purposes with the Department of Insurance.

   Company's Response. We have changed the signature on our policies and put new edition dates on these policies. We later discovered that changing the signature on the policies did not require a new filing with the Department; however, the new edition date did require a new filing. We immediately changed our policy edition dates back to the original dates.

   The procedure for making a change to a policy or endorsement has been re-examined. All changes are now routed through the underwriting manager and then to the information systems manager and to our legal counsel. After all have approved the content of the document, it is filed with the Department of Insurance.

   We are currently rewriting company policy forms. These will be filed with the Department of Insurance as they are completed.

6. Suspected Fraudulent Claims. The Company had a suspected fraudulent claims procedure as required by Section 41-290, Idaho Code. However, the reporting of suspected fraudulent claims within the 60 days requirement could not be verified. It is recommended that the Company record both the date it first suspects a fraudulent claim and the date it subsequently reported it to the Department of Insurance.

   Company's Response. The Company has created a log sheet to track suspected fraudulent claims forms. It will be the responsibility of the regional claims managers to complete the suspected fraudulent claim form and submit it to the Department of Insurance. They will also log the approximate date of suspicion and the date submitted to the Department of Insurance on the log sheet. A copy of the suspected fraudulent claim form and the log sheets will be sent to the home office claims department where a central file will be kept with a follow-up system to ensure proper reporting.

7. Complaints. The Company maintained a Quality Control Log. An examination of a sample of the supporting files revealed that:

   - The Company appeared to not follow-up on some of the complaints and make certain that the complainant was satisfied with the response.
   - Some of the actual policyholder and Department of Insurance complaints were not kept in the complaint files.
   - Some of the Company's responses were not kept with the complaint files.
   - The Company could not produce some of the complaints maintained on the Quality Control Log.
   - The Company's response to one Department of Insurance inquiry was not handled timely.

   The Company was not in compliance with Section 41-1330, Idaho Code, that states; "Every authorized insurer shall maintain a complete (underline added for emphasis) record of all the complaints which it has received since the date of it last examination . . ."

   It is recommended that the Company amend its procedures as follows:

   - The Company should follow up on complaints and leave the files open until the Company has verified that the complainant has no further inquiries.
   - The Company should maintain more complete complainant files with a copy of the original complaint and all subsequent correspondence in relationship to the complaint.
   - The Company should respond to all inquiries from either the policyholder or the Department of Insurance in a timelier manner.

   Company's Response. The Company has implemented the following procedures for handling complaints:

All Complaints come first to the underwriting coordinator where they are logged and the corresponding file(s) reviewed. A separate complaint file is set up at this time with the name, policy number and complaint date listed on the tab for easy identification. A log sheet is included with each complaint to verify that all the required information is contained in the file. The complaint and file are routed to the appropriate department head according to the type of complaint. The underwriting coordinator has a follow-up system to make sure a response is sent to the Department within the required timeframe. Responses to the individual filing the complaint will be timely and all documentation will be contained in the individual complaint files.

The examination recommends that the Company make sure the policyholder is satisfied with the company response. While the Company cannot ensure that the policyholder will always be satisfied with the response, the complaint file will remain open until the Company has verified that the policyholder has no further inquiries.

Written procedures for handling complaints will be completed and routed to all department heads to ensure full awareness of the new guidelines.

8. Bonds. An examination review of the custodial agreements disclosed that the agreements did not include the NAIC safeguard provisions as outlined under Bond examination procedures II A. (1) and (2). These procedures require that; (1) the bank is obligated to indemnify the Company for any loss of securities due to negligence or dishonesty of the bank, and (2) that in the event of such loss, the securities shall be promptly replaced, and the value of any loss of rights or privileges from such loss shall be promptly replaced. It is recommended, as in the prior examination, that the Company implement these safeguard procedures into all of its custodial/safekeeping agreements.

   It was also noted during the review of the custodial agreements that one custodial bank had undergone two name changes since the agreement was executed on October 18, 1988. It is recommended that this agreement be amended or modified to include the current name of the bank.

   Company's Response. *The custodial agreement for the regular account has been rewritten and now includes the NAIC safeguard provisions. A copy of this agreement is attached. The custody agreement required by Idaho Code Section 41-316 for the protection of all of the Company's policyholders does not contain the safeguard provisions as described in the Bond examination procedures II A (1) and (2). The content of this agreement is determined by the Idaho Department of Insurance; therefore, we are unable to comply until the Department changes this form.*

9. Common Stocks. A one-dollar-per-share money market account was included among the securities, with a value of $3,885,554. This account was known as the Centennial Money Market Trust, and was purchased through and held by the A.G. Edwards brokerage firm at December 31, 1998. Section II B. 2 (c) (Bonds and Stocks Procedures) of the NAIC Handbook requires that the securities be held by a licensed bank or trust company. It is recommended that the Company take the necessary measures to comply with this

requirement with regard to the money market account.

Company's Response. The A. G. Edwards Centennial Money Market was closed in September 1999. The Company now utilizes the Victory Federal Money Market Select account through Key Bank.

10. Premiums and Agents' Balances in Course of Collection (Assets Not Admitted). The Company listed their Returned Checks as a write-in item in the 1998 Annual Statement. This item should have been included in Premiums and Agents' Balances in Course of Collection. The examiner reclassified the Returned Checks in their proper category. The resulting reclassification did not change the total admitted assets for the company. It is recommended that the Company include their Returned Checks with Premiums and Agents' Balances in Course of Collection in future Annual Statements, instead of listing this as a write-in item.

    Company's Response. Returned checks were listed on Page 2 Line 10 (Premiums and Agents' Balances in Course of Collection) beginning with the 1999 annual statement.

11. Loss and Loss Adjustment Expense Reserves. The examination actuary noticed one error in the Company's reserve analyses. The estimated ultimate allocated loss adjustment expense (ALAE) and estimated ultimate salvage and subrogation was calculated as the product of a ratio and estimated ultimate losses. In each case, the data used to derive the ratios was not consistent with the data to which the ratios were applied. We recommend that the Company correct this error in future reserve analyses.

    Company's Response. In review of our reserving procedures for allocated loss adjustment expense and salvage and subrogation, we conclude the data used to arrive at the ratios is consistent with the data to which the ratios apply. If you would like us to review this further, please supply us with more specific findings and commentary.

12 Loss and Loss Adjustment Expense Reserves. We also recommend that the Company estimate and book ceded ALAE reserves in future annual statement.

Company's Response. The Company will begin to estimate and book ceded ALAE reserves in the 2000 annual statement.

HISTORY AND DESCRIPTION

The Company was incorporated on April 27, 1947 as a stock insurance company under the name of Idaho Farm Insurance Company, Inc. and commenced operations on May 1, 1947 conducting multi-line insurance business in Idaho.

The Company amended its Articles of Incorporation on December 30, 1955, which changed its status to a mutual insurance company and changed its name to Farm Bureau Mutual Insurance

Company of Idaho, Inc. The Articles of Incorporation and Bylaws were further amended on January 25, 1991, changing the Company name to Farm Bureau Mutual Insurance Company of Idaho.

During March 2002, the Company relocated to a new home office building located at 275 Tierra Vista Drive, Pocatello, Idaho.

The Company operated under the provisions of Chapter 28, Title 41 of the Idaho Code, and provided coverage for the following lines of business:

- Fire
- Allied Lines
- Farm owners Multiple Peril
- Homeowners Multiple Peril
- Fidelity
- Inland Marine
- Other Liability Occurrence
- Private Passenger Automobile Liability
- Automobile Physical Damage

Capital Stock

The Company was incorporated on April 27, 1947 as a stock insurance company under the name of Idaho Farm Insurance Company, Inc. and commenced operations on May 1, 1947 conducting multi-line insurance business in Idaho.

The Company amended its Articles of Incorporation on December 30, 1955, which changed its status to a mutual insurance company and changed its name to Farm Bureau Mutual Insurance Company of Idaho, Inc. The Articles of Incorporation and Bylaws were further amended on January 25, 1991, changing the Company name to Farm Bureau Mutual Insurance Company of Idaho.

The Company operated under the provisions of Chapter 28, Title 41 of the Idaho Code, as the Company is a mutual insurance company.

Dividends to Policyholders

During the examination period, policyholder dividends in the amount of $711,586 were paid to policyholders in June 1999. No dividends were paid during the years 2000, 2001, and 2002.

The dividends paid in 1999 consisted of $700,000, which was paid to the farm and ranch program, and $11,586, which was paid to the accidental death program. The payment of the dividends was approved by the Company's Board of Directors, as evidenced in the minutes of their meetings. The dissemination of the dividends was equitable and in compliance with Idaho Code Section 41-2844.

Acquisitions, Mergers, Disposals, Dissolutions, and
Purchases or Sales Through Reinsurance

During August 2001, Farm Bureau Insurance Service Company of Idaho, a direct subsidiary of the Company, acquired a 1/3 interest in Western Computer Services, Inc., through the purchase of 2,500 shares of common stock.

The Company failed to file a preacquisition notification with the Director of the Idaho Department of Insurance 30 days prior to the proposed effective date of the acquisition, as required by Idaho Code Section 41-3805B. It is recommended that, in the future, the Company make appropriate filings as required by the Idaho Code.

Surplus Debentures

The Company did not have any Surplus Debentures or Surplus Notes outstanding during the period covered by this examination or subsequently.

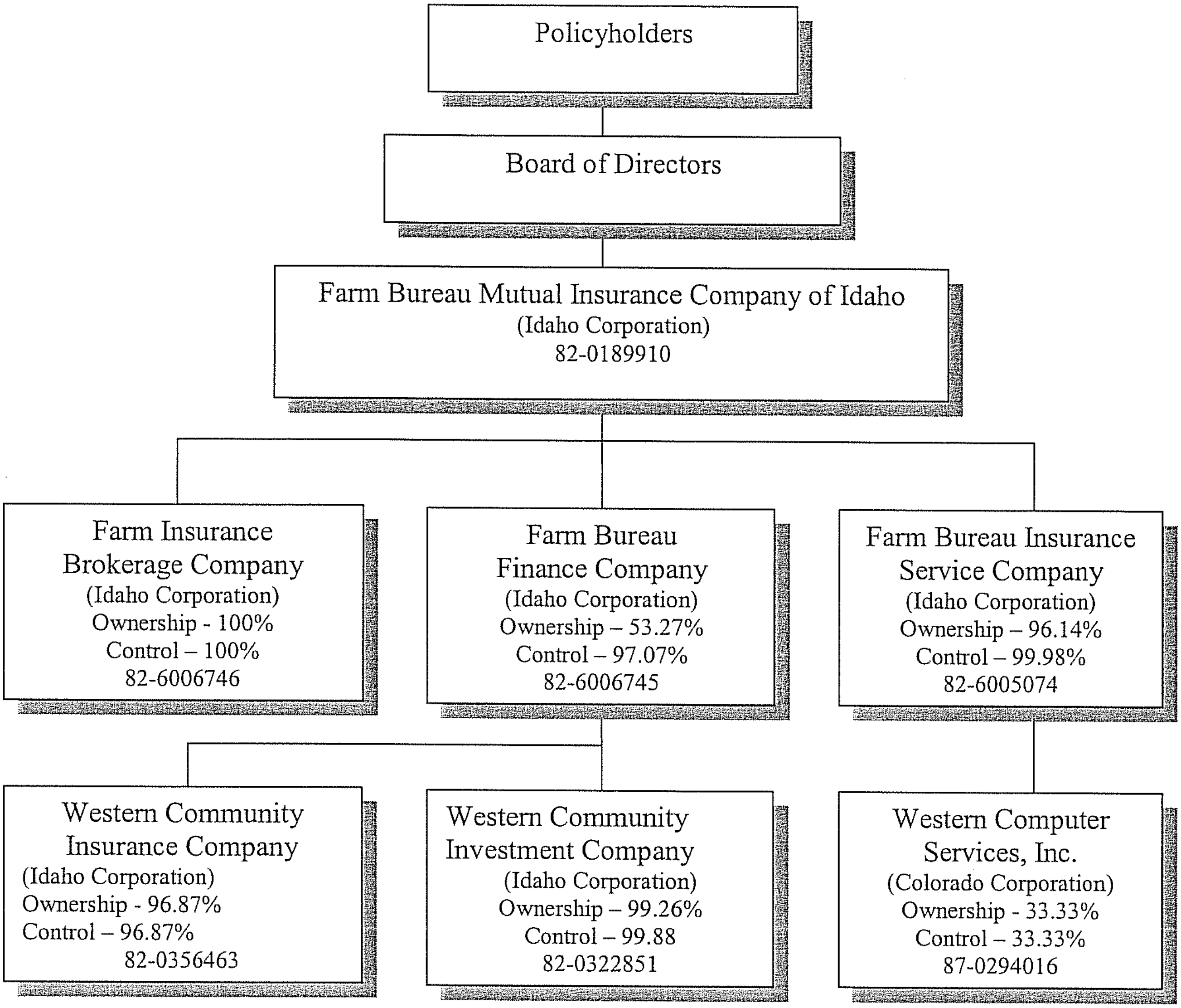
Idaho Insurance Guaranty Association

The Company is a member of the Idaho Insurance Guaranty Association, pursuant to Idaho Code Section 41-3606.

MANAGEMENT AND CONTROL

Insurance Holding Company System

The Company was a member of an insurance holding company system, as defined in Idaho Code Section 41-3801 and was the designated "Ultimate Controlling Person" in the system. An organizational chart of the system was as follows:



Changes noted, since the examination as of December 31, 1998, were the change in the percentage of ownership of Farm Insurance Brokerage Company from 96.8% to 100% and Western Community Insurance Company from 98.0% to 96.87%. Farm Bureau Insurance Service Company, a subsidiary of the Company, also acquired Western Computer Services, Inc. in August 2001.

The Company's Form B Holding Company Registration Statements for the period under examination were reviewed. It was noted in the Form B, dated May 23, 2003, the ownership percentage, reflected in the organizational chart, was incorrect for Farm Insurance Brokerage Company. Also the Form B did not reflect Farm Bureau Insurance Service Company's acquisition of the 1/3 interest in Western Computer Services, Inc.

Schedule Y, Part 1 of the Company's 2002 annual statement reflected an incorrect percentage of ownership for Farm Bureau Insurance Service Company and did not reflect Western Computer Services, Inc. as a member of the holding company system. It is recommended that the Company be more diligent in completing Schedule Y and its Form B filing.

Directors

The following individuals were serving as members of the Company's Board of Directors as of December 31, 2002:

Name and Location	Position
Loyal I. Fleener * Deary, Idaho	Self Employed
Marjorie A. French Princeton, Idaho	Chapter 1 Aide, Potlatch School District # 285
Dave D. Hall Inkom, Idaho	Self Employed Farmer
Niel A. Hergert, Sr. Nampa, Idaho	Self Employed
Larry S. Jenson ** Roberts, Idaho	President, Silver Ridge Ranch, Inc.
Cloy K. Jones Heyburn, Idaho	Self Employed
Terry A. Jones Emmett, Idaho	Owner, Treasure Valley Land & Cattle Company
Curtis E. Krantz Parma, Idaho	Self Employed
Gerald L. Marchant Oakley, Idaho	Self Employed Rancher
Carl H. Montgomery Eden, Idaho	Self Employed
Herbert J. Offermann Sandpoint, Idaho	Retired Advertising Director, Bonner County Daily Bee
Frank S. Priestley Franklin, Idaho	Self Employed Farmer
Dean E. Schwendiman Newdale, Idaho	Self Employed Farmer

Bryan L. Searle Shelley, Idaho	Partner, Searle Farms
Lynn J. Steadman American Falls, Idaho	Self Employed Farmer

* -On February 13, 2002, Loyal Fleener resigned from the board and was replaced by Danny G. Ferguson of Rigby, Idaho, on April 9, 2003.

**-Effective January 24, 2003 Albert K. Johnson of Georgetown, Idaho, replaced Larry S. Jenson.

Officers:

The following individuals were serving as officers of the Company as of December 31, 2002:

Name	Position
Frank S. Priestley	President
Phillip R. Joslin	Executive Vice President and CEO
Lynn J. Steadman	First Vice President
Dave Lehman	Vice President-Marketing & Assistant Secretary
James Beckley	Vice President-Claims & Assistant Secretary
Richard Petersen	Vice President-Legal Affairs & Assistant Secretary
Dan Hoffa	Vice President-Operations & Assistant Treasurer
Rick Keller	Secretary
Paul Roberts	Treasurer

Review of the Department's Corporate File indicated biographical affidavits for each Director and Officer had been filed with the Idaho Department of Insurance.

Committees

The Bylaws authorize the President, with the approval of the Board of Directors, to appoint committees, however, none had been appointed or appeared to be active during the period covered by this examination. During the review of the minutes of the Directors' meetings, there were references to an Executive Committee and an Insurance Services Committee; however, the Company indicated that these were committees of the Idaho Farm Bureau Federation, which were making presentations to the Company's Board of Directors.

Subsequently on April 9, 2003, the Board of Directors appointed an Audit Committee. The committee consisted of the following members:

Marjorie French
Dave Hall
Niel Hergert, Sr.
Carl Montgomery
Frank Priestley
Dean Schwendiman
Lynn Steadman

Conflict of Interest

The Company adopted a conflict of interest policy, which required the officers, directors, and office management personnel to disclose annually, on a prescribed written form, any affiliation with or material interest in any operation or activity which conflicts or may potentially conflict with their official duties with the Company. A review of the documents for the period under examination indicated that the forms were completed by all subject personnel and were filed on a yearly basis. No potential conflicts of interest were noted on the forms during the review.

Contracts and Agreements

As of December 31, 2002, the Company was party to several agreements with affiliated companies for management services, leases and consolidated taxes. The agreements are summarized as follows:

1. Management Agreement – Western Community Insurance Company

   Effective January 1, 1999, the Company entered into a management agreement with Western Community Insurance Company (WCIC), an affiliate of the Company. Pursuant to the agreement, the Company agreed to provide complete management services for the lines of business written by WCIC. The services provided include, but are not limited to, marketing, underwriting, collection of premiums, accounting, processing, and the adjustment and payment of claims.

   The Company was compensated for its management services by a fee of 17% of direct premiums written by WCIC. Such services included, but were not limited to, management, marketing, underwriting, processing, travel, home office rent, employee expenses, personnel, data processing, equipment, actuarial, secretarial, accounting, collection of premiums, and processing of adjusting and paying claims.

   The agreement also included a provision for WCIC to pay an additional 2% of its direct written premium to the Company for use of its county office facilities, plus actual reimbursement (on a cost basis) for supplies, printing, telephone, postage, insurance, and other general expenses.

   The agreement provided for the fees to be paid by WCIC on a monthly basis within 30 days of receipt of the billing from the Company.

   As the Company assumed 100% of all direct written business written by Western Community Insurance Company (WCIC), the Company agreed to arrange for excess reinsurance coverage facilities and provide reinsurance reporting services for WCIC on the business written, which is subject to the terms of the agreement. The Company and WCIC shared the reinsurance costs in proportion to their respective retentions on the business.

The Company agreed to provide WCIC all necessary reports and statistical data within 15 days after the close of each month. WCIC agreed to make payments to the Company based on these reports within 15 days of their receipt from the Company.

Either party may terminate the agreement at the end of any given year by giving the other a written notice of termination at least 90 days prior to the end of the calendar year.

The management fees paid by WCIC to the Company during the period covered by this examination were as follows:

Year	Amount
1999	$2,385,331
2000	$2,548,005
2001	$2,737,651
2002	$3,315,061

2. Management Agreement – Farm Bureau Finance Company

Effective January 1, 1999, the Company entered into a management agreement with Farm Bureau Finance Company (Finance Company), an affiliate. Pursuant to the agreement, the Company agreed to provide management and other services to the Finance Company. The services provided include management services, processing, travel, promotion expense, rent, secretarial, personnel, employee related expenses, data processing, and accounting. In addition, the Finance Company reimbursed the Company for supplies, printing, telephone, postage, insurance, and other similar expenses on a cost basis.

Also the Finance Company reimbursed the Company a portion of the royalty fee, the Company pays annually to the Idaho Farm Bureau Federation, Inc. for the use of the Farm Bureau name and logo by the Company and affiliates. The royalty fee was 0.50% of the annual loan interest for the year 1999, which will increase by 0.07% each year thereafter until the year 2006, when it will increase by 0.08% yielding a fee of 1%. The fee will remain at 1% for the years thereafter.

The agreement provided for an annual cost assessment, which was agreed upon by the parties in advance of the year to which it applied. The Company billed the Finance Company monthly, within 15 days after the close of the month, and the Finance Company paid the Company within 15 days of receipt of the monthly billing.

3-5. Management Agreements - (with three Subsidiaries)

The Company provided personnel, office space, management services, data processing and accounting services to, and paid other employee related expenses on behalf of three subsidiary companies; Western Community Investment Company, Farm Bureau Insurance Service Company of Idaho, and Farm Insurance Brokerage Company, Inc.

The Company executed management agreements with each of the above entities effective January 1, 1997. The agreements were brief, and contain provisions, which were basically identical, and are summarized as follows:

a. Each subsidiary shall pay an annual fee for the services provided by the Company, which shall be agreed upon by the parties annually in advance of the year to which it applies. In addition the subsidiaries will pay the Company for supplies, printing, telephone, postage, insurance, and other general expenses on a cost basis.

b. The Company will provide each of the subsidiaries, within 15 days after the close of each month, all reports and statistical data which the subsidiary may request, as reasonable and agreed to by the parties. Payments owed under the contracts, which are based on the reports, shall be made within 15 days of receipt of the monthly report from the Company.

Each of the agreements had an arbitration clause, and each may be terminated by either party at the end of any year by giving 90 days written notice prior to the end of such calendar year.

In prior examinations, recommendations were made for the Company to enter into written agreements with each of the subsidiaries and to maintain a file for each agreement that will document the annual advance fees, which are agreed upon in advance between the Company and the subsidiaries. It was determined during this examination, these agreements need to be filed and approved by the Department in accordance with Idaho Code Section 41-3807(2). Subsequently, the Company filed these agreements along with the allocation exhibits for the 2003 year for the following affiliated companies: Western Community Insurance Company, Farm Bureau Finance Company, Western Community Investment Company, Farm Bureau Insurance Service Company of Idaho, and Farm Insurance Brokerage Company, Inc. Per the Department's letter, dated September 29, 2003, the agreements and the related allocation exhibits were approved. In the future, it is recommended that the Company file such agreements or amendments in accordance with Idaho Code Section 41-3807(2).

6. <u>Service Agreement – Western Community Insurance Company and Farm Bureau Finance Company</u>.

Effective September 7, 1999, the Company entered into an agreement with Western Community Insurance Company (both referred to as Insurers) and Farm Bureau Finance Company (Finance Company), which is an affiliate of the Insurers. The insurers wanted to use the Finance Company for the purpose of financing their insurance premiums. The parties agreed to the following:

a. Finance Company shall provide financing to the customers of the Insurers for insurance premiums payable to insurers.
b. Finance Company shall comply with all applicable federal and state laws.

c. Insurers agree that their agents and employees shall insure that all documentation required by the Finance Company of Insurer's customers is properly filled out and submitted.
d. Insurers shall give its customers such disclosures, receipts or other documentation requested by Finance Company.
e. Insurers shall provide personnel to monitor all payments and under the direction of Finance Company shall issue billings, loan disclosure statements and other paper that may be required to finance the premiums.
f. The reimbursement for the cost of these employees shall be borne by the Finance Company and is included in the Management Agreement previously entered into by the parties.
g. Insurers guarantee payment to the Finance Company of any balance due after cancellation of any policy. Finance Company agrees to assist Insurers in the collection of such sums.

7. Lease Agreements – Western Community Investment Company

Effective November 1, 1999, the Company entered into three lease agreements with Western Community Investment Company (Investment Company), an affiliate. The agreements were for the rental of space, on property owned by the Investment Company, at the following locations:

Location	Rental Amount
200 E Avenue, Jerome, Idaho 83338	$ 709 per month
225 W. Grand, Arco, Idaho 83213	$ 420 per month
2007 14th Avenue, Lewiston, Idaho 83501	$2,100 per month

The Company agreed to pay the above-indicated rent on the first of the month and to use the premises for the operation of an insurance agency. The Company is responsible for all bills for heating, power, water, sewer, and garbage. The Investment Company is responsible for all state and county taxes.

The terms of the leases were from November 1, 1999 to October 31, 2000. The Company can continue each lease on a year-to-year basis and rental rates can be negotiated at the time of renewal.

Subsequently on February 17, 2003, the Company entered into two lease agreements with Farm Bureau Finance Company (Finance Company). The agreements were for the rental of space, on property owned by the Company, at the following locations:

Location	Rental Amount
4122 E. Cleveland Blvd., Caldwell, ID	$1,260 per month
1250 South Allante, Boise, ID	$ 840 per month

The Finance Company agreed to pay the above-indicated rents on the first of the month. The Finance Company was responsible for all bills for heating, power, water, sewer, and garbage. The Company was responsible for all state and county taxes.

The terms of the leases were from January 1, 2003 to January 1, 2004. The Finance Company can continue each lease on a year-to-year basis and rental rates can be negotiated at the time of renewal.

The above lease agreements had not been filed with the Department as required by Idaho Code Section 41-3807(2). Subsequently, the Company filed these agreements with the Department. Per the Department's letter, dated March 1, 2004, the agreements were approved. It is recommended, in the future, that the Company file the agreements and that all agreements be filed at least thirty days prior to the agreement's effective date.

In addition, the Company has approximately 40 lease agreements with non-affiliated parties throughout the State of Idaho for its county offices. A review of the agreements disclosed that monthly rental amounts ranged from $100 to $3,448, and that during 2002 the amount of rents paid for these county offices totaled approximately $633,350.

8. Reinsurance Agreement-Western Community Insurance Company

Effective January 1, 1998, the Company entered into a reinsurance agreement with Western Community Insurance Company (WCIC), a subsidiary. WCIC agreed to cede 100% of its premiums on all direct lines of business and class groups to the Company. The Company paid WCIC a ceding commission of 33% of the written premium, which will be settled monthly. For further detail of the agreement refer to the "REINSURANCE" section of this report.

9. Auto Lease Agreement - Farm Bureau Finance Company

Effective January 1, 1983, the company entered into an agreement with Farm Bureau Finance Company. Under the terms of this agreement, the Company leased a fleet of vehicles for use by its employees. The leased vehicles were purchased by the finance company according to the Company's specifications. The Company's monthly lease installment was comprised of a 2% depreciation charge based on the vehicles' cost, plus a "use fee" which was calculated at the present new car annual percentage rate based on the present average book value of the vehicle, plus a 6% sales tax. When a new car was purchased, the use fee continued on the old vehicle, according to the terms of the lease, until the vehicle was sold. Upon the sale of the old vehicle, the Company received any gain or loss.

The auto lease agreement had not been filed with the Department as required by Idaho Code Section 41-3807(2). Subsequently, the Company filed this agreement with the Department. Per the Department's letter, dated March 1, 2004, the agreement was approved.

10. Consolidated Income Tax Allocation Agreement

This agreement was executed on January 26, 1998, and includes all corporate entities in the holding company system, i.e., the Company, Western Community Insurance Company, Farm Insurance Brokerage Company, Farm Bureau Finance Company, Farm Bureau

Insurance Service Company of Idaho, and Western Community Investment Company, all of which are Idaho Corporations (the Parties).

The above Parties to the agreement were the parent and subsidiary corporations, which were eligible to file consolidated income tax returns. The five subsidiary corporations (the Company being the Parent) acknowledged that they have previously authorized the Parent to include them in consolidated income tax returns for the tax years ending December 31, 1992, 1993, 1994, 1995, and 1996, and further authorized the Company to include them in future consolidated income tax returns, unless consent was specifically withdrawn by formal notice to the Company.

The Parties to this agreement mutually agreed to allocate the consolidated federal income tax liability for all years for which the consolidated group has filed or will file a consolidated income tax return by applying the liability method to each member of the group as if it were a separate taxpayer.

The amount of federal income tax allocated to each member was computed by applying the current income tax rate for the year being allocated to the separately computed taxable income before the elimination of items considered on a consolidated basis, such as net capital gains and gains or losses from form 4797 transactions, less each member's share of the dividends received deduction.

The Company and WCIC were insurance companies taxed under Section 41-405, Idaho Code, not subject to Idaho corporation income tax, and therefore not subject to state income tax allocation, under the terms of the agreement.

The parties made estimated tax payments based on their allocation of federal and state income taxes for the previous year. Settlements of balances due or refunds receivable were determined by subtracting the estimated payments made for the year from the federal and Idaho State income tax allocated to each party for that year.

This agreement will continue on a year-to-year basis until such time as any party gives the remaining parties 30 days written notice of cancellation.

The agreement was filed with the Department, as required by Idaho Code Section 41-3807(2).

11. Provider Agreement - Safelite Glass Corporation

Effective December 31, 1997, the Company entered into an agreement with Safelite Glass Corporation (Safelite) of Columbus, Ohio. Safelite maintains a network and database of company operated glass repair and replacement facilities, and independent shops, which are regular Safelite subcontractors and have signed an approved installation center (AIC) agreement with Safelite. These facilities are located throughout the United States.

Under the provisions of this contract, Safelite agreed to make available and provide its store distribution network, call center, invoice billing, claim processing and selling expertise, and systems support program to the Company and its insureds, for the main purpose of assisting the Company in paying no more than it is contractually obligated to pay for such claims as determined by the Company, through the use of procedures developed by Safelite.

The major services provided by Safelite include (a) "First Notice of Loss and Scheduling Service," whereby Safelite receives and processes direct loss notifications for the Company's insureds by telephone and other means, and scheduling the repair or replacement as described in the contract. (b) "Invoice Audit Service," which is the process by which Safelite audits invoices to ensure that they appropriately reflect parts and prices. (c) "Invoice Payment Service," whereby Safelite pays invoices from independent shops on behalf of the Company as described in the contract.

The contract shall continue in effect for a term of three years from the date of execution, and shall automatically renew for three successive terms of one year, unless either party elects to terminate the agreement, and gives the other party a minimum of ninety days notice of non-renewal.

12. Service Agreement - Idaho Farm Bureau Federation

Effective November 1, 1998, the Company entered into an agreement with the Idaho Farm Bureau Federation (the Federation).

The Federation provided a number of services to the Company, which were primarily designed to assist the Company in selling insurance. The services provided include, but are not limited to, the following:

1. Provide a complete listing of the Federation's membership on a monthly basis.
2. Allow agents of the Company to attend Federation meetings for providing insurance information.
3. Promoting the sale of the Company's insurance products among the Federation's members.
4. Providing staff and field personnel for purposes of organizing and scheduling insurance promotional meetings.
5. Accept advertisements from the Company to be in the Federation's publications.
6. Assist in promoting safety and security programs for the purpose of safeguarding the life, health, and property of the members.
7. Providing the advice and counsel of its officers and directors concerning the future products and services for its policyholders.
8. Make staff and field personnel available to obtain an understanding of the insurance program, so they can better respond to inquiries and concerns of the members.
9. Provide field personnel to contact the county offices to assure that they are coordinating insurance service inquiries and problems with the insurance agent or adjuster assigned to that territory.

The Company paid the Federation up to a maximum of one-half of one per cent (.005) of its direct premiums written for these services, with payments being made on a monthly basis. In addition, the Company agreed to pay its pro rata portion of county office facilities, advertising, supplies, and other commonly shared expenses on a monthly basis.

The Company provided general office services and facilities to the Federation, for which the Federation reimbursed the Company for estimated actual costs, plus a reasonable return on investment for those facilities, which require a capital investment.

The Company agreed to provide an Accidental Death Insurance Policy for each member family. The policy provided benefits of $1,000 for the member, member's spouse, and $1,000 for each of the member's unmarried children under the age of 21 years. The Federation paid the Company a provisional premium of $1.70 for each member to apply toward the insurance policy.

13. Royalty Agreement – Idaho Farm Bureau Federation, Inc.

Effective January 1, 1999, the Company entered into a royalty agreement with the Idaho Farm Bureau Federation, Inc. The Federation has been granted the exclusive right to use and benefit of the name "Farm Bureau" and the logo "FB" within the State of Idaho by the American Farm Bureau Federation, which owns the name and logo. The Company recognized the value of the name and logo and wished to derive benefit from its association and use the Farm Bureau name and logo it its services and products. Therefore, the Federation allowed the Company and its subsidiaries to use the name and logo, and all other intangible benefits associated with them in exchange for an annual royalty payment.

The amount of the royalty payment was determined by an annual percentage of the Company's written premiums from Idaho policies. The royalty was 0.75% per year for the year 1999, with an increase of 0.10% per year each year thereafter until the annual rate of the royalty payment reaches a maximum of 1.5%. The Company made monthly royalty payments, which were calculated by using the applicable rate multiplied by the prior month's written premium.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

During the period covered by this examination, there were no changes or amendments made to the Company's Articles of Incorporation or Bylaws.

Subsequent to the examination date, the Company amended its bylaws twice, once on February 10, 2003 and again on April 14, 2003. Copies of the amended bylaws were filed and approved by the Idaho Department of Insurance.

Minutes of Meetings

The minutes of meetings of the Company's policyholders and Board of Directors were reviewed for the examination period. The review indicated that the meetings were held in compliance with the Bylaws, and were well attended.

The minutes reflected the annual elections of the Board of Directors and Officers, acceptance of independent auditor's reports, investment transactions, and approval of policyholder dividends, salaries, and amendments to the Company's bylaws.

The minutes of the Directors meeting, held on April 19, 2000, acknowledged the receipt, review and acceptance of the statutory examination report as of December 31, 1998, conducted by the Idaho Department of Insurance.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverages, for the protection of the Company, were maintained throughout the period covered by this examination. Coverages in effect as of December 31, 2002, are summarized as follows:

Fidelity Bond

Fidelity and employee dishonesty coverage is provided to the Company and other named subsidiary entities up to a single loss and aggregate limit of $800,000, which was below the minimum recommended per NAIC Financial Condition Examiners Handbook. The recommended amount for the Company ranged from $900,000 to $1,000,000.

Other Insurance

The Company was also a named insured on a number of other insurance policies, which included the following coverages:

Commercial Property	Worker's Compensation
Commercial General Liability	Professional Liability
Commercial Inland Marine	Directors' and Officers' Liability
Commercial Auto Liability	Commercial Occurrence Excess coverage

The insurance companies providing the coverages to the Company were authorized insurers in the State of Idaho. It appears that the Company maintained adequate coverages for risks to which the Company could be exposed.

SALARY, WAGE AND EMPLOYEE BENEFITS

Employees of the Company were provided numerous employee benefits, group insurance and retirement plans. The major programs, which were available, are summarized below:

Health Care. Employees were provided health benefits, at the Company's expense, with two plans to select from, the Traditional or a Preferred Provider Organization (PPO). The health care plans were self-insured by the Company. Family protection was available for additional premiums based on desired coverage.

Dental Care. A group dental plan was provided by the Company at no cost to employees. The dental plan was self-insured by the Company. Family coverage was available for additional premium.

Defined Retirement Plan. The plan was available to employees 21 years of age or older with one year of continuous service. The employee becomes a participant on the first day of the month following completion of one year of service and is vested with five years of vested service. The Company pays the entire cost of the pension plan.

Life Insurance. A group life coverage was available, with the amount of coverage being based on salary classification. Coverage becomes effective after 60 days of continuous service. The Company pays the entire cost of this coverage

Voluntary Employee Saving Plan. Employee contributions to the plan can be either pre-tax, after-tax or both. The pre-tax option offers a 401(K) provision and the Company matches the employee's contribution up to $30 per month ($15 per pay period). Employees can also make after-tax contributions, which will generate earnings, which will not be taxed until they are withdrawn.

Disability Insurance. A long-term group disability income plan, which contains a coordination of benefit provision with Social Security, was available to eligible employees. A payroll deduction program was available to cover the premium cost to the employees upon request. The maximum monthly amount available is 60% of the insured monthly salary or $5,000, whichever, is less.

Holiday, Vacation, and Sick Leave. Employees had 8 paid holidays per year. Vacation Leave was granted at varying levels depending on longevity. Vacation leave must be used prior to the next anniversary month and cannot be carried to the following year. Sick Leave was granted at varying levels depending on length of service and does not accrue.

Other benefits available to the employee were flexible spending accounts, family and medical leave, attendance bonus incentive, continuation of insurance coverage, and reimbursement of educational training.

TERRITORY AND PLAN OF OPERATION

The Company was licensed, as a domestic property and casualty insurer, only in the State of Idaho and operated under Certificate of Authority No. 531. The Company concentrated mainly on farm and homeowners multiple peril and private passenger automobile lines of business.

The Company used captive agents as their sales force and had approximately 154 active appointed agents as of December 31, 2002. Operations of the Company were conducted from its home office located in Pocatello, Idaho. The Company had 41 county or field offices located throughout the State of Idaho.

The Company utilized two contract forms. The Special Agent's Contract was entered into with new agents. The contract provides for the agent to receive monthly salary, plus a commission, as provided for in the special agent's commission schedule. The contract is effective for three years after execution and can be terminated by either party upon written notice.

After the agent is established, he executes a contract entitled Career Agent's Contract. The term of this contract was on a continuous basis, until terminated. The agent is not an employee, but is considered an independent contractor. The contract contained the usual provisions concerning business conduct, acting in the Company's best interest, and abiding by the rules, regulations, and procedures of the Company, and all applicable State insurance laws and regulations. Commissions under the agreement were based on a commission schedule.

The commission schedule provides for growth incentive commissions, loss ratio bonus commissions, and client service commissions, in addition to the first year and renewal commissions.

Producer Licensing

Appointment Review

A listing of licensed agents, provided by the Company, was reconciled with a listing provided by the Idaho Department of Insurance, with no significant exceptions noted.

Agent/Agency File Review

A copy of the Fund's Agency Agreement was provided and reviewed. A sample of agent/agency files were selected and reviewed for signed agency agreements and existing licensing and appointments were verified. No exceptions were noted during the review.

Terminated Appointments Review

There were 37 terminated appointments recorded by the Department for the period covered by this examination. A sample of the terminated agents' files was selected and reviewed for a copy of the termination notice to the Department and that the notice reflected the reasons for the appointment termination in accordance with Idaho Code Section 41-1019(1)(2). No exceptions were noted during the review.

Commissions Paid Review

The Company paid commissions on a monthly basis. The commission rate, ranging from 5% to 11%, was determined from a schedule of commissions in effect at the time the policy was written. In addition to the basic first year and renewal commission, the Company paid incentive and bonus commissions, which are indicated on the commission schedule.

A sample was selected from commissions paid for the month of September 2002. A detail of the agents' account for September was reviewed and traced to the subsequent payment. The commission rates applied to the agents' September account were traced to the commission schedule in effect as of that date. Agents' files were reviewed for proper appointments and contracts. No exceptions were noted.

STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2002, the Company provided the following securities in trust for the protection of its policyholders and creditors, through the Idaho Director of Insurance and held by U.S. Bank, in compliance with Idaho Code Section 41-316:

Description	Par Value	Statement Value	Fair Value *
Ada & Canyon County Jt SD #2, 4.7%, Due 7/30/13	$ 500,000	$ 497,914	$ 526,190
Ada & Canyon County Jt SD #2 Meridian, 4.5%, Due 7/30/12	500,000	502,244	525,475
Gem & Boise County SD #221, 4.5%, Due 8/1/12	500,000	500,000	520,865
Total	$1,500,000	$1,500,158	$1,572,530

* The fair market value amounts were taken from the December 2002 statement of the custodian bank.

The following securities were held by Wells Fargo Bank Northwest, N.A. and approved by the State Treasurer, for Workers Compensation deposit requirements per Idaho Code Section 41-317:

Description	Par Value	Statement Value	Fair Value *
Bonneville & Bingham Cnty Jt SD#93, 5.5%, Due 7/30/09	$200,000	$200,000	$219,488
Total	$200,000	$200,000	$219,488

* The fair market value amounts were taken from the December 2002 statement of the custodian bank.

In addition, the following securities were held by U.S. Bank in escrow for the American Agricultural Insurance Company excess reinsurance agreement:

Description	Par Value	Statement Value	Fair Value *
Boise City Urban Renewal Agency, 5.15%, Due 8/15/11	$ 250,000	$ 250,000	$ 275,193
Polk Cnty Wisconsin, 4.5%, Due 12/1/13	500,000	495,736	525,584
Polk Cnty Wisconsin, 5%, Due 12/1/19	500,000	496,792	519,385
Seattle WA Municipal Light & Power, 5%, Due 7/1/18	250,000	250,000	258,355
Total	$1,500,000	$1,492,529	$1,578,517

* The fair market value amounts were taken from the December 2002 statement of the custodian bank.

GROWTH OF THE COMPANY

The following schedule reflects the growth of the Company, as reported in the Company's annual statements, for the respective years as indicated in the following schedule:

Year	Net Admitted Assets	Liabilities	Policyholders' Surplus	Net Income (Loss)
1998 *	$198,933,659	$ 89,015,607	$109,918,052	$ 7,342,952
1999	$200,567,105	$ 87,574,111	$112,992,994	$ 6,026,445
2000	$208,777,217	$ 89,005,481	$119,771,736	$ 6,205,266
2001	$224,992,404	$111,042,219	$113,950,185	$(1,008,663)
2002 *	$236,225,867	$123,601,837	$112,624,030	$(2,000,174)

* - Per Examination

LOSS EXPERIENCE

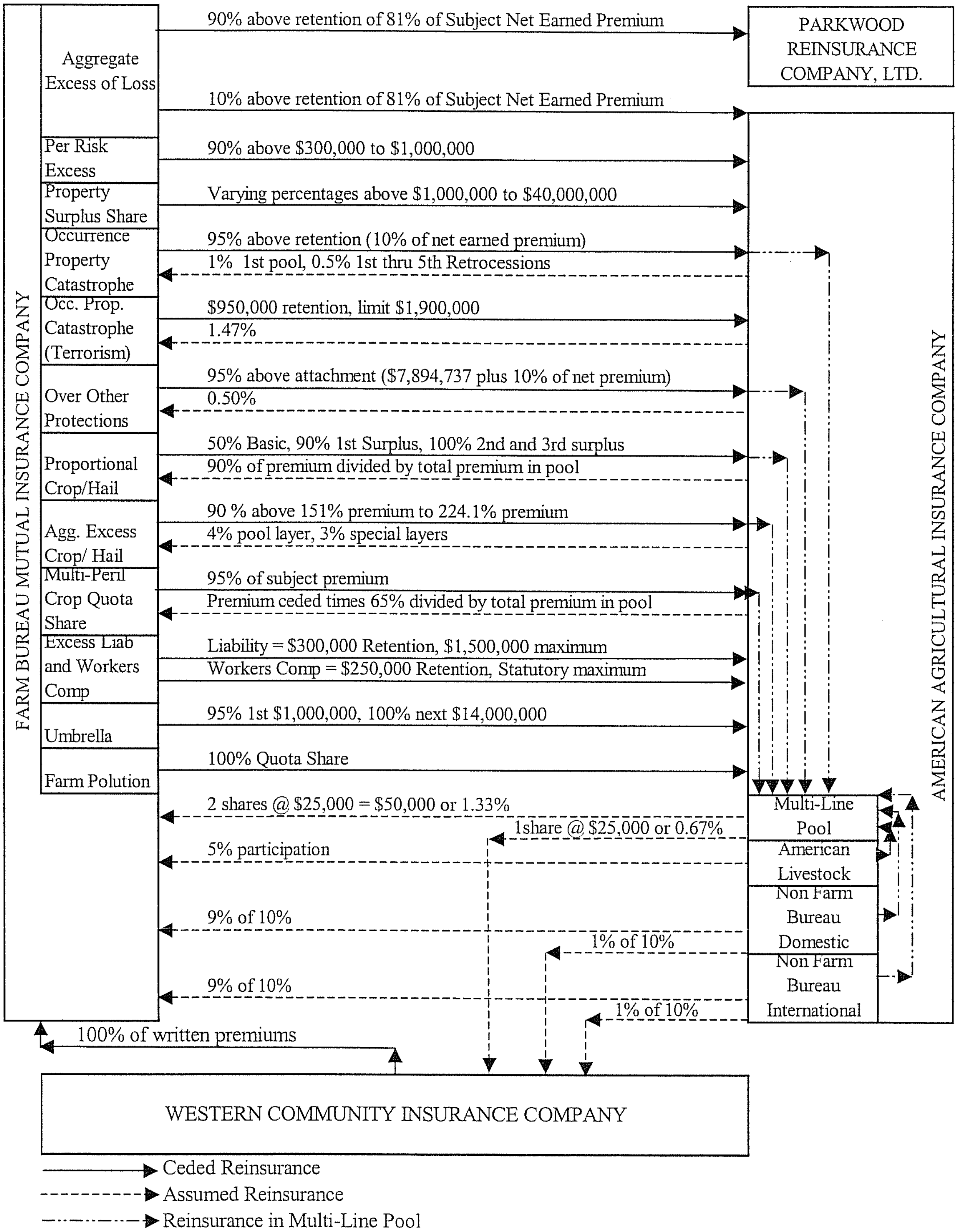
The ratio of claims and underwriting expenses incurred to premiums earned, as reported in the Fund's annual statements are scheduled below:

Year	Premiums Earned	Losses & LAE Incurred	Underwriting Expenses Incurred	Total Losses, LAE and Expenses	Ratio to Premiums Earned
1998	$71,025,593	$53,065,745	$16,376,411	$ 69,442,156	97.8%
1999	$76,649,667	$60,022,129	$16,868,740	$ 76,890,869	100.3%
2000	$76,227,719	$59,598,984	$17,531,978	$ 77,130,962	101.2%
2001	$80,158,928	$69,917,032	$19,324,423	$ 89,241,455	111.3%
2002	$90,406,890	$80,003,775	$23,701,975	$103,705,750	114.7%

REINSURANCE

A chart of the Company's reinsurance program as of December 31, 2002 was as follows:

FARM BUREAU REINSURANCE PROGRAM
as of December 31, 2002



Assumed

The company assumed business through various reinsurance agreements from authorized reinsurers, which are summarized as follows:

Ceding Company	Plan of Reinsurance
American Agricultural Insurance Company (AAIC)	Occurrence Property and Auto Catastrophe Pool Occurrence Property Catastrophe (Terrorism) Pool Over Other Protections Pool Proportional Crop Hail Pool Aggregate Excess Crop Hail Pool Multiple Peril Crop Quota Share Pool American Livestock Pool Multi-Line Pool Domestic Non-Farm Bureau Pool International Non-Farm Bureau Pool
Western Community Insurance Company	All direct lines of business and class groups

Occurrence Property and Auto Catastrophe Pool

The Pool provides coverage from affiliated Farm Bureau Companies under their Occurrence Property Catastrophe and Occurrence Property and Auto Catastrophe Reinsurance Agreements assumed by AAIC. The Pool is divided into a pool layer of 100% Farm Bureau insurance companies and retrocession layers (Master Slips) that is partially assumed from non-Farm Bureau companies. The Company receives premiums based upon their assumed percentage by layer less a service fee (see the following table). The Company is then responsible for its percentage of losses.

Layer	Percentage	Service Fee
1st Pool	1.0%	1.0%
1st Retrocession (1st Master Slip)	0.5%	10.0%
2nd Retrocession (2nd Master Slip)	0.5%	10.0%
3rd Retrocession (3rd Master Slip)	0.5%	10.0%
4th Retrocession (4th Master Slip)	0.5%	10.0%
5th Retrocession (5th Master Slip)	0.5%	10.0%

Occurrence Property Catastrophe (Terrorism) Pool

The Pool provides coverage from affiliated Farm Bureau Companies under their Occurrence Property Catastrophe (Terrorism) Reinsurance Agreements assumed by AAIC. This is a pool covering catastrophic events of terrorism that would have been excluded from the Occurrence Property Catastrophe Pool. The Company receives premiums based upon their assumed percentage of 1.47% less a service fee of $380.00. The Company is then responsible for its percentage of losses.

Over Other Protections Pool

The Pool provides coverage from affiliated Farm Bureau Companies under their Over Other Protections Agreements assumed by AAIC. This is a pool covering catastrophic events not covered by other reinsurance. The Company receives premiums based upon their assumed percentage of 0.5% less a service fee of 10.0%. The Company is then responsible for its percentage of losses.

Proportional Crop Hail Pool

The Pool provides coverage from affiliated Farm Bureau Companies under their Proportional Crop Hail assumed by AAIC. The Company receives premiums based upon their assumed percentage by layer less a service fee (see the following table). The Company is then responsible for its percentage of losses.

Pool	Percentage	Service Fee
Quota Share	Percentage determined by premium ceded multiplied by 90% divided by total Pool Premium carried to 4 decimal places.	1.5%
1st Surplus Share	3.0%	1.5%
2nd Surplus Share	3.0%	1.5%
3rd Surplus Share	3.0%	1.5%
Special 1st Surplus Illinois	2.0%	1.5%

Aggregate Excess Crop Hail Pool

The Pool provides coverage from affiliated Farm Bureau Companies under their Aggregate Excess Crop Hail agreements assumed by AAIC. The Company receives premiums based upon their assumed percentage by layer less a service fee (see the following table). The Company is then responsible for its percentage of losses.

Pool	Percentage	Service Fee
Pool Layer	4.0%	2.0%
2nd Layer Illinois	3.0%	2.0%
1st Layer Iowa	3.0%	2.0%

Multiple Peril Crop Quota Share Pool

The Pool provides coverage from affiliated Farm Bureau Companies under their Multiple Peril Crop Quota Share agreements assumed by AAIC. The Company receives premiums based upon their assumed percentage by layer less a service fee (see the following table). The Company is then responsible for its percentage of losses.

Pool	Percentage	Service Fee
Quota Share	Percentage determined by premium ceded multiplied by 65% divided by total Pool Premium carried to 4 decimal places.	1.0%

American Livestock Pool

This is an individual retrocession pool. The Company has 5% participation. The Company receives premiums based on the retrocession percentage of 5.0% less a service fee of 1.0%.

Multi-Line Pool

The Pool is based on pool shares relating to various lines of business assumed by AAIC. The Company assumes two shares with each share representing up to $25,000 of exposure per risk or a maximum of $50,000. The Company receives premiums based on the retrocession percentage of 1.33% less a service fee of 1.5%.

Domestic Non-Farm Bureau Pool

The Pool provides property coverage from Non-Farm Bureau Companies that covers exposures primarily within the United States. The Company receives premiums based upon their assumed percentage of 9% less a service fee. The Company is then responsible for its percentage of losses.

International Non-Farm Bureau Pool

The Pool provides property coverage from Non-Farm Bureau Companies that covers exposures primarily outside the United States. The Company receives premiums based upon their assumed percentage of 9% less a service fee. The Company is then responsible for its percentage of losses.

Western Community Insurance Company

The Company assumes 100% of the direct lines of business and class groups written by Western Community Insurance Company, its affiliate. According to the agreement, the premium shall be paid to the Company when collected from the insureds. The Company pays a commission of 33% of the premium and the reporting and settlements of the transactions are made on a monthly basis.

The Company pays all agent commissions and overwrites on all business issued by the Company's agents for Western, however Western reimburses the Company for these commissions. Western is responsible for all federal and state taxes, including premium taxes on all business assumed by the Company. The Company shall maintain reserves with respect to unearned premium and claims under this agreement.

All the assumed reinsurance contracts contain all the clauses and termination provisions suggested in the NAIC Financial Condition Examiners Handbook.

Ceded

The Company ceded business through various reinsurance agreements from an authorized reinsurer that is summarized as follows:

Assuming Company	Plan of Reinsurance
American Agricultural Insurance Company (AAIC)	Property Surplus Share Agreement Property Per Risk Excess Agreement Occurrence Property Catastrophe Agreement Occurrence Property Catastrophe (Terrorism) Agreement Over Other Protections Agreement Proportional Crop Hail Agreement Aggregate Excess Crop Hail Agreement Multiple Peril Crop Quota Share Agreement Excess Liability and Workers' Compensation Agreement Umbrella Liability Agreement Farm Pollution Liability Insurance Agreement
Parkwood Reinsurance Company, Ltd and AAIC	Aggregate Excess of Loss

Property Insurance

Insurance Levels	"A" Risks	"B" Risks
$40,000,000	Property Surplus Share - Cession Percentages varying by amount of insurance. Commission 27.5%	Property Surplus Share - Cession Percentages varying by amount of insurance. Commission 27.5%
$1,000,000	Property Per Risk Excess 10% Participation by Company Rate 3.679% Minimum $590,000 Commission 57.27%	
$300,000	Retention	

The Company can cede property risks as either "A" Risks or "B" Risks. The Company can choose any cession as a "B" Risk. All other cessions will be considered "A" Risks. For the year ending December 3, 2002, the Company did not cede any "B" Risks. As the Company's premiums were distinguishable, the Company used actual premiums. If the premiums are not distinguishable, the reinsurance premiums would be based upon direct written premium according to the following schedule:

Description	Percentage
Generally-Coverages not included below:	100%
Homeowners Multiple Peril	88%
Farm-owners Multiple Peril	80%
Commercial Multiple Peril	80%

Occurrence Property Catastrophe Agreement

This agreement provides recoveries on catastrophic losses that exceed retention limits of 10% of annual net earned premium of approximately $19,000,000 or $1,900,000. The agreement covers property lines during a 72-hour period (168 hours for flooding, and winter storm collapse and water damage caused by bursting frozen pipes or melting snow). If two covered events are contained within one 72-hour period, the company may elect to have only one retention apply. After the retention, the Company is responsible for 5% of the loss. The limit of liability is $7,500,000 with a capacity of $7,894,737.

Occurrence Property Catastrophe (Terrorism) Agreement

This agreement provides recoveries on catastrophic losses that would have been excluded by the terrorism exclusion in the Occurrence Property Catastrophe Agreement. The Company had a retention of $950,000. The limit of liability was $1,900,000.

Over Other Protections Agreement

This reinsurance provides coverage for all Farm Bureau Groups shown in the agreement. The Company is responsible for each loss occurrence for its insureds that does not exceed an attachment point of $7,894,737 plus 10% of the net earned premium for the "Occurrence Property Catastrophe Agreement." The Company is then responsible for 5% of any excess losses with a limit of liability of $3,000,000 and an annual limit of liability of $6,000,000.

If a catastrophic occurrence affects more than one Farm Bureau Group and they exceed their attachment points, the reinsurance limits will be $35,000,000 with an annual limit of $70,000,000. Each Farm Bureau Group's share will be proportionate of its Ultimate Net Loss to the sum of all Farm Bureau Group's Ultimate Net Loss. The Company is one of 33 other companies covered by the agreement.

Proportional Crop Hail Agreement

The Company shall obligatorily cede to AAIC the crop hail coverage written by the Company. The premium and losses are shared between the Company and AAIC according to the following layers:

Layer	Capacity	Company Retention	Cession Percentage
Basic	$400,000	50.0%	50.0%
1st Surplus	$800,000	10.0%	90.0%
2nd Surplus	$800,000	0.0%	100.0%
3rd Surplus	$1,500,000	0.0%	100.0%

Aggregate Excess Crop Hail Agreement

This reinsurance provides excess coverage over the "Proportional Crop Hail Agreement." The Company retains 151.0% of the retained loss cost of the "Proportional Crop Hail Agreement" and then has a participation of 10.0% of further retained loss cost to a capacity of 224.1%.

Multiple Peril Crop Quota Share Agreement

This reinsurance provides coverage on a quota share basis for the policies the Company issues that would be reinsured by the Federal Crop Insurance Corporation (FCIC). The reinsurance covers those losses remaining after deducting all other reinsurance cessions. The reinsurance limit is 95.0% of the subject premium with a retention of 5.0% of the subject premium.

Excess Liability and Workers' Compensation Agreement

This reinsurance covers the following lines of business:

1. Farm-owners Multiple Peril (Casualty Provisions Only)
2. Homeowners Multiple Peril (Casualty Provisions Only)
3. Commercial Multiple Peril (Casualty Provisions Only)
4. Workers Compensation
5. Other Liability
6. Auto Liability

The coverages are then divided into class groups as follows:

1. Class Group I
    a. Automobile, including Garage Liability as indicated:
    b. General Liability, including all coverages other than Automobile and other than those specified in Class Group II as indicated:

2. Class Group II includes Workers Compensation and the following coverages and exposures when written in connection therewith:
   a. Employers Liability
   b. Occupational disease

The Class Group determines the retention and maximum limits as follows:

		Maximum Limits:	
Class Group	Retention	Per Occurrence BI/PD	Employers' Liability
I	$300,000	$1,500,000	Same as BI/PD
II	$250,000	Statutory	$1,500,000

AAIC then has the following layers with the corresponding limits of liability, premium rates and minimum premiums:

Class Group	Layer	Rate	Limit of Liability	Minimum Premium
I	Retro	2.085%	$250,000	$100,000
I	Working	0.708%	$1,250,000	$50,000
I	Catastrophe	0.038%	$5,000,000	$19,000
I	Excess Catastrophe	0.019%	$5,000,000	$12,000
I	1st Clash	0.019%	$5,000,000	$12,000
I	2nd Clash	0.019%	$5,000,000	$12,000
II	Retro	0.000%	$0	$0
II	Working	7.640%	$1,500,000	$250,000
II	Catastrophe	1.878%	$5,000,000	$46,950
II	Excess Catastrophe	0.500%	$5,000,000	$25,000
II	1st Clash	0.450%	$5,000,000	$22,500
II	2nd Clash	0.425%	$5,000,000	$21,500

The Company has entered into a Premium Escrow Security Fund Agreement between US Bank, American Agricultural Insurance Company and the Company. The Agreement allows the Company to use some of its securities as collateral and set them into a fund in lieu of paying the total premium to American Agricultural since the reinsurance policy has a Retro Layer and may not have to pay 100% of the reinsurance premium. Based on the agreement, the Company is required to maintain securities on deposit with U S Bank of Idaho for the benefit of American Agricultural. The market value of the securities on deposit with the bank of $1,598,500 is greater than the amount of the IBNR reserves of $1,347,456.

Umbrella Liability

This reinsurance provides umbrella coverages for the following Class Groups:

1. Personal
   Personal umbrella policies and endorsements include the following exposures:
   a. Covered liability of individual insureds defined therein
   b. Certain professional liability exposures as defined and limited therein and under the terms of this agreement
2. Farm and Ranch
   Farm and Ranch umbrella policies include all covered farm liability exposures
3. Commercial
   Commercial umbrella policies include all other covered liability exposures

The following shows the Class Groups and their various policy limit layers with the corresponding capacity, reinsurance percentage and commission percentage for this reinsurance:

Class Group	Limit Layer	Treaty Capacity	Reinsurance Percentage	Commission Percentage
Personal	1st	$1,000,000	95.0%	35.0%
Personal	2nd	$1,000,000	100.0%	35.0%
Personal	3rd	$1,000,000	100.0%	35.0%
Personal	4th	$1,000,000	100.0%	35.0%
Personal	5th	$1,000,000	100.0%	35.0%
Personal	6th	$5,000,000	100.0%	22.5%
Personal	7th	$5,000,000	100.0%	22.5%
Farm & Ranch	1st	$1,000,000	95.0%	35.0%
Farm & Ranch	2nd	$1,000,000	100.0%	35.0%
Farm & Ranch	3rd	$1,000,000	100.0%	35.0%
Farm & Ranch	4th	$1,000,000	100.0%	35.0%
Farm & Ranch	5th	$1,000,000	100.0%	35.0%
Farm & Ranch	6th	$5,000,000	100.0%	22.5%
Farm & Ranch	7th	$5,000,000	100.0%	22.5%
Commercial	1st	$1,000,000	95.0%	35.0%
Commercial	2nd	$1,000,000	100.0%	35.0%
Commercial	3rd	$1,000,000	100.0%	35.0%
Commercial	4th	$1,000,000	100.0%	35.0%
Commercial	5th	$1,000,000	100.0%	35.0%
Commercial	6th	$5,000,000	100.0%	22.5%
Commercial	7th	$5,000,000	100.0%	22.5%

Farm Pollution Quota Share Agreement

This reinsurance provides coverage for business classified as Farm Pollution Liability coverages under Farm-owners and Farm Personal Liability policies. The Company cedes 100% of the quota share to AAIC. The reinsurer's liability shall not exceed $1,000,000 on any one policy or any one-loss event.

The reinsurer allows the Company a commission on all premiums ceded under this agreement as per the following table:

Coverage Type	Commission Percentage
Third party Liability only	20%
Third party Liability with first-party clean-up	30%
Underground Storage Tanks	30%
Dairy or Confinement Operations	30%

Aggregate Excess of Loss

This reinsurance covers all lines of business written by the Company. The Company shall retain 81% of the Subject Net Earned Premium (SNEP). SNEP shall mean the Company's gross earned premium for the subject business, less ceded earned premium for reinsurance that inures to the benefit of the agreement. The Company estimated the 2002 SNEP as $81,144,431. Thus, the estimated retention was $68,156,989. The aggregate limit of the reinsurance was $2,524,333 above the retention. The reinsurer of 90% of this coverage was Parkwood Reinsurance Company, Ltd., Hamilton, Bermuda, unauthorized reinsurer in the State of Idaho. The Company obtained a letter of credit from Parkwood in the amount of $4,211,190. The other 10% was ceded to American Agriculture Insurance Company, an authorized reinsurer.

All the ceded reinsurance contracts contain all the clauses and termination provisions suggested in the NAIC Financial Condition Examiners Handbook.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company offers various property and casualty insurance coverages in Idaho only. The Company offered three squire package plans. The Country squire, City squire, and the Farm & Ranch squire plans contained the following general classification of coverages and the specific coverage under each classification:

Coverage Types and Specific Coverages			
Property	Liability	Automobile	Inland Marine
Dwelling	Bodily Injury	Bodily Injury	Other
Loss of Use	Property Damage	Property Damage	
Personal Property	Premises Medical	Medical Payments	
Additional Buildings	Medical Payments	Fire and Theft	
	Death of Livestock by Collision	Comprehensive	
	Custom Farming	Collision	
	Damage to Property of Others	Uninsured Motorist	
		Underinsured Motorist	

The Company offered various other individual policies as follows:

Umbrella Policy	General Liability Policy
Standard Automobile Policy	Inland Marine Policy
Property Policy	Crop Hail Policy

During the period under examination, the Company filed a number of endorsements and revised policy forms for various lines of coverage, with the Idaho Department of Insurance. A listing of policy forms, filed with the Department, was compared to the forms provided to the examiners by the Company. No exceptions were noted during the review.

It was noted during the review of the Company's underwriting manual that the Company utilized insurance scoring in determining the cost of insurance coverages. On review and supported by documentation provided by the Company's management, it was determined that the use of insurance scoring was in compliance with IDAPA 18.01.19.

The Company's first privacy notice, required by the Gramm-Leach-Bliley Act of 1999, was sent in a mass mailing to all policyholders in June 2001. The Company continues to send notices with the declaration pages of all new business and with the declaration pages of the notice of renewal. The privacy notice is also posted in the Company's website.

Treatment of Policyholders

Paid Claims-General Review

The claims review was conducted by the examiner to determine the accuracy of the Company information and to determine that claims have been paid in a timely manner and in the general handling procedures prescribed by the Idaho Code Title 41. The review sample was selected by using ACL from a file provided by the Company, which contained the data for all claim payments made during 2002. The total of paid claims of the data provided was reconciled to the paid claim amounts reflected in the Company's general ledger and in the Company's 2002 annual statement. The claim review indicated that the Company's claim payment data was accurate and that the claims were paid in a timely manner and in accordance with policy provisions. No exceptions were noted during the review.

Complaint Review

The Company maintained complaint handling procedures and a complaint register as required by Idaho Code Section 41-1330. During the examination period, 122 complaints had been submitted to the Idaho Department of Insurance. The Company's complaint register was reviewed and a sample was selected for further review. The review indicated that the Company responded to the complaints in a timely manner and the Company's response was appropriate. No exceptions were noted.

Credit Scoring

The Company began using the credit score on January 1, 2002. The insured's renewal premium rate was first determined without using the insured's credit score. In determining the premium amount, the Company applied discounts for package policy, preferred insured, and longevity, which can add up to 28% of the initial premium. The Company then applied a discount for the insured's credit score, which can range from 1 to 20 percent, with 20% being the maximum. Therefore, the maximum amount of the insured's premiums on renewals that is affected by the credit score is limited to 20%. As the maximum amount of discount was limited to 20%, it was therefore determined by the examiner that the Company was in compliance with Idaho Code Section 41-1843 and IDAPA 18.01.19, in that the weight attributed to the insured's credit score did not exceed the weight given by the Company for all other criteria.

Therefore, the examiner reviewed all cancelled or rejected policies to determine if the Company had canceled or rejected the policy based primarily on the insured's credit score. The Company provided a listing of 241 rejected policies for 2003 from which a sample was selected. The Company provided policy files for review. The review of the rejected policy files indicated that the insured's credit score was not the major reason that the Company cancelled or rejected the policy. Therefore, the Company was in compliance with Idaho Code Section 41-1843 and IDAPA 18.01.19.

Fraudulent Claims

The Company's Agent's Information Manual and the Claims Operations Guide include references to insurance fraud and claims of a suspicious nature. The Claims Operations Guide further references the National Insurance Crime Bureau's Indicators of Property Fraud. During the examination period, the Company was in compliance with Idaho Code Section 41-290 in that it had reported, to the Director of the Idaho Department of Insurance, by virtue of the "Suspect Fraudulent Claim Report," instances that the Company had belief that a fraudulent claim had been made.

Gramm-Leach-Bliley Act of 1999

The Company sent out its first notice as a mass mailing to all of its current policyholders in June 2001. This notice met the Act requirement, which mandated the initial notice be sent no later than July 1, 2001. Subsequently the Company distributed copies of the notice along with the declaration pages and policy booklets for all new business. For all renewal business the Company included copies of the notice with the declaration pages. The notice is also posted on the Company's website at www.idfbins.com. The Company did not provide an opt-out notice because the manner in which it uses the information does not require it to provide such a notice. The Company does not sell information and those vendors, that it sends information to, provide reports back to it and the vendor does not release the information to others. As of the examination date, the Company was in compliance with the Gramm-Leach-Bliley Act.

Advertising and Sales Material

During the examination period, the Company advertised through the use of television, cable television, radio, yellow pages, the Internet and various printed materials. All advertising must be approved, prior to its use, by the home office.

The Company's advertising was reviewed during the course of the examination and was determined to be in compliance with Idaho Code Sections 41-1303 and 41-1304.

ACCOUNTS AND RECORDS

General Accounting

The Company used OLIE (On Line Information Executive), an interactive system on its mainframe computer using PCs connected to its LAN (Local Area Network) and WAN (Wide Area Network). OLIE was used to capture data for Policy Management, Claims Management, Accounts Payable and Receivable, General Ledger, etc.

The Policy Management System of OLIE was used to issue policies, pay commissions, create general ledger entries, set up policy accounts receivable and all other reporting needed by the Company. The Claims Management System used the information on OLIE to verify policy coverage information before setting up reserves or claims. Once coverage was verified, claims payments were made with checks written and general ledger entries created. All management reporting for claims was generated from data processed by the system.

Information from the Policy Management System and the Claims Management System were fed into the Accounts Payable/Receivable Systems. This included claim payments, commissions, policy balances due, and other payables. Billing, reports and general ledger entries were produced and used by its accounting systems. The systems were written and maintained in the Information Systems Department of the Company. All the systems were somewhat dependent on each other, in that they use information captured and provided by each other.

The Company compiled its annual statement utilizing a Freedom A/S 2000 software package, the NAIC Annual Statement Instructions and the Accounting Practices and Procedures Manual. The investment portfolio was maintained on Sungard's Enterprise Portfolio System (EPS). The Company's independent auditors maintained the fixed assets.

Independent Accountants

Deaton & Company, Chartered, Pocatello, Idaho was the Company's independent auditor for the period covered by this examination. Deaton & Company has been the Company's independent auditor since 1987.

The independent auditor's report issued for the year ending December 31, 2002, indicated the accompanying statutory balance sheets and related statements presented fairly, in all material respects, the financial position of the Company on a statutory basis. In compliance with Rule No. 62 (IDAPA 18.01.62), the independent auditors' reports for the period under examination were filed with the Idaho Department of Insurance.

The independent auditor's 2002 workpapers and supporting documentation were made available and reliance was placed on these workpapers, when possible, during this examination. When the auditor's workpapers were used, such workpapers were denoted to indicate that utilization.

Actuarial Opinion

A statement of actuarial opinion regarding the unpaid losses and loss adjustment expenses reported by the Company in its 2002 annual statement was made by Randall S. Nordquist. The opinion stated that Mr. Nordquist was an employee of the Company and appointed by the Company's Board of Directors on November 12, 2002 to render this opinion. Mr. Nordquist was a member of the American Academy of Actuaries and a Fellow of the Casualty Actuarial Society.

The opinion further stated his review included the actuarial assumptions, methods, and such test of calculations as deemed necessary to determine the loss and loss adjustment expense reserves. The opinion stated that the reserve amounts (1) met the requirements of the insurance laws of Idaho, (2) were computed in accordance with generally accepted loss reserving standards and principles, and (3) made a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its policies and agreements. In forming the opinion, the actuary relied upon data prepared by a responsible representative of the Company, and evaluated such data directly in the analysis for reasonableness and consistency. The actuary considered a material adverse deviation to be one in which the actual net outstanding losses and loss adjustment expenses exceeded the Company's reserves by an amount greater than $5.6 million (5% of the Company's surplus as regards policyholders). The actuarial items reported in the 2002 Annual Statement, on which Mr. Nordquist's opinion was rendered, were as follows:

Reserves for Unpaid Losses (Page 3, Line 1)		$42,104,831
Reserve for Unpaid Loss Adjustment Expenses (Page3, Line3)		$11,072,411
	Total	$53,177,242
Reserve for Unpaid Losses – Direct and Assumed (Schedule P-Part 1, Total of Columns 13 and 15)		$54,511,000
Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed (Schedule P-Part 1, Total of Columns 17, 19, and 21)		$11,099,000
	Total	$65,610,000
Extended Loss and Expense Reserve (Schedule P Interrogatories)		$0
Retroactive Reinsurance Reserve Ceded or Assumed (Page 3, Write-in Item)		$0

The following were taken into consideration in determining the above amounts:

a. Anticipated salvage and subrogation included as a reduction to loss reserves reported in the Company's annual statement: $3,825,000.

b. Discount included as a reduction to loss reserves and loss expense reserves reported in the Company's annual statement: $0 for tabular discount and $0 for non-tabular discount.

c. The net reserves for losses and expenses for the Company's share of voluntary and involuntary underwriting pools and associations for unpaid losses and expenses reported in the Company's annual statement: $2,007,281.

d. The net reserves for losses and loss adjustment expenses that the Company carried for Asbestos liabilities and Environmental liabilities reported in the Company's annual statement: Asbestos liabilities of $0 and Environmental liabilities of $0.

e. In the total reserves for losses and loss adjustment expenses, the Company reported the extended loss and expense reserves in Schedule P Interrogatories of $0.

The Company wrote a variety of coverages whose major risk factors could have a material impact on the variability of the Company's reserves. In addition to traditional adverse loss development, the actuary has identified the major risk factors that could affect the Company to be reinsurance assumed (including exposures assumed relating to the September 11, 2002 terrorist attacks), collectibility on reinsurance ceded, and court judgments. The absence of other risk factors from this listing does not imply that additional factors will not be identified in the future as having significantly influenced the Company's reserves. The Company's actuary considered the potential for material adverse deviation from these risks factors to be negligible, relative to the Company's policyholder surplus.

The Company participated in a number of voluntary underwriting pools and associations. Assumed reserves for the Company's share of voluntary underwriting pools' and associations' unpaid losses and expenses, which were included on Page 3 of the annual statement, amounted to $2,007,281. The Company's practice was to record the loss and loss adjustment reserves reported to it by the pools and associations without accrual for any reporting lag. For one pool the Company judgmentally added $300,000 to the reserve reported to it. The Company also assumed reinsurance from its downstream affiliate, Western Community Insurance Company. In the Company's actuary's opinion, the chance was remote that assumed reserves shown in the Company's 2002 annual statement will ultimately turn out to be deficient by a material amount.

The majority of the Company's ceded loss reserves were primarily with American Agricultural Insurance Company, which had an "A" rating by A. M. Best & Company. The Company's experience over the past five years did not disclose any uncollectible ceded losses and no amounts that have been or are currently in dispute. The Company's actuary's opinion indicated that there was a remote chance of default by or disputes of material amounts with the Company's reinsurers.

Court judgments can be unpredictable. However, Idaho has enjoyed a relatively stable judicial environment. In the Company's actuary's opinion, the chance was remote that this environment will turn hostile toward insurers, resulting in the Company incurring material amounts of additional reserves on existing unpaid claims.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

- Balance Sheet as of December 31, 2002
- Underwriting and Investment Exhibit, January 1, 2002, through December 31, 2002
- Capital and Surplus Account, December 31, 2001, through December 31, 2002
- Reconciliation of Surplus, December 31, 1998 through December 31, 2002

BALANCE SHEET
December 31, 2002

Assets

	Ledger	Non-Ledger	Not Admitted	Net Admitted
Bonds	$131,641,440	$	$	$131,641,440
Preferred Stocks	274,750			274,750
Common Stocks	50,068,367			50,068,367
Real Estate – Occupied by the Company	15,442,164			15,442,164
Real Estate – Properties Held for Sale	1,811,448			1,811,448
Cash and Short term Investments	3,815,290			3,815,290
Other Invested Assets	2,934,070			2,934,070
Premiums in Course of Collection	21,422,025		222,180	21,199,845
Reinsurance Recoverables on Loss & LAE Payments	8,456			8,456
Federal Income Tax Recoverable and interest thereon	4,223,044			4,223,044
Electronic Data Processing Equipment	493,730			493,730
Interest, Dividends and RE Income Due and Accrued	2,107,136			2,107,136
Receivable from Parent, Subsidiaries and Affiliates	636,696			636,696
Aggregate Write-ins for Other Than Invested Assets:				
Furniture and Fixtures	1,569,431			1,569,431
Total Assets	$236,448,047	$ 0	$222,180	$236,225,867

Liabilities, Surplus and Other Funds

Losses (Note 1)		$42,104,831
Reinsurance Payable on Paid Loss and Loss Adjustment Expenses		4,088
Loss Adjustment Expenses (Note 1)		11,072,411
Commission Payable, Contingent Commission and Similar Charges		4,184,925
Other Expenses		3,747,798
Taxes, Licenses and Fees		352,603
Unearned Premiums		41,785,739
Ceded Reinsurance Premiums Payable		1,189,748
Funds Held by Company Under Reinsurance Treaties		1,274,000
Amounts Withheld or Retained by Company for Account of Others		5,961,556
Drafts Outstanding		1,533,858
Payable to Parent, Subsidiaries, and Affiliates		10,390,280
Total Liabilities		$123,601,837
Unassigned funds (surplus)	$ 112,624,030	
Surplus		112,624,029
Total Liabilities, Surplus and Other Funds		$236,225,867

UNDERWRITING AND INVESTMENT EXHIBIT
For the Period January 1, 2002, through December 31, 2002

Statement of Income

Underwriting Income	
Premiums earned	$ 90,406,890
Deduct:	
Losses Incurred	$ 71,375,661
Loss Expenses Incurred	8,628,114
Other Underwriting Expenses Incurred	23,701,975
Total Underwriting Deductions	$103,705,749
Net Underwriting Gain (Loss)	$(13,298,860)
Investment Income	
Net Investment Income Earned	$ 7,503,002
Net Realized Capital Gains (Losses)	488,452
Net Investment Gain (Loss)	$ 7,991,454
Other Income	
Net Gain (Loss) from Agents' or Premium Balances Charged Off	$ (100,122)
Finance and Service Charges not Included in Premiums	55,263
Miscellaneous Income	69,429
Total Other Income	$ 24,570
Net Gain From Operations Before Dividends and Federal Income Taxes	$ (5,282,836)
Dividends to policyholders	0
Net Gain (Loss) From Operations After Dividends and Before Federal Income Taxes	$ (5,282,836)
Federal Income Taxes Incurred	(3,282,662)
Net Income (Loss)	$ (2,000,174)

CAPITAL AND SURPLUS ACCOUNT

Surplus, December 31, 2001	$113,950,186
Net Income (Loss)	$ (2,000,174)
Net Unrealized Capital Gain (Losses)	(384,132)
Change in Non-Admitted Assets	1,143,873
Change in Provision for Reinsurance	(85,723)
Net change in surplus for the year	$ (1,326,156)
Surplus, December 31, 2002	$112,624,030

RECONCILIATION OF SURPLUS
December 31, 1998 through December 31, 2002

	1999	2000	2001	2002
Surplus, December 31, Prior Year	$109,918,052 *	$112,992,994	$119,771,736	$113,950,186
Net income	$ 6,026,445	$ 6,025,266	$ (1,008,663)	$ (2,000,174)
Net Unrealized Gains (Losses)	(2,939,228)	559,000	(920,074)	(384,132)
Change in Net Deferred Income Tax			2,147,279	1,143,873
Change in Non-Admitted Assets	(12,275)	14,476	(23,401)	(85,723)
Cumulative Effect of Changes in Accounting Principles	0	0	(6,016,691)	0
Net Change for the Year	$ 3,074,942	$ 6,778,742	$ (5,821,550)	$ (1,326,156)
Surplus, December 31, Current Year	$112,992,994	$119,771,736	$113,950,186	$112,624,030 *

* - Per Examination

Loss Reserve (Note 1)	$42,104,831
Loss Adjustment Expense Reserve (Note 1)	$11,072,411

The captioned liability represented the Company's loss and loss adjustment expense reserves as of December 31, 2002. The liabilities consisted of the following:

Reserves	Losses	Loss Adjustment Expenses
Direct	$41,272,676	$8,657,034
Assumed	13,237,335	2,442,377
Ceded	(12,405,180)	(27,000)
Totals	$42,104,831	$11,072,411

Taylor-Walker & Associates, Inc., Salt Lake City, Utah, were contracted by the Idaho Department of Insurance to evaluate the Company's loss and loss adjustment expense reserves as of December 31, 2002. The results of their evaluation form a part of this examination.

It was Taylor-Walker's opinion that the Company's 2002 booked gross and net loss and loss adjustment expense reserves were reasonable and no adjustments were recommended to the Company's reserve amounts. The actuarial review took into consideration certain limitations and conditions. As specific reserve amounts are necessarily estimates, it should be recognized that future loss and loss adjustment expense emergence may deviate, perhaps substantially, from the reserve estimates. However, Taylor-Walker believed that the methods and assumptions applied during their review were appropriate. Given the information at the time of their review, they believed that the conclusions presented regarding the Company's 2002 reserve estimates were reasonable.

The Taylor-Walker actuarial review indicated that a portion of the Excess Liability and Workers' Compensation reinsurance agreement was considered financial reinsurance. The agreement included a "retro layer" of liability coverage, covering the working layer from $300,000 to $550,000 per occurrence. In addition to the retro layer, the agreement also included coverage for other liability and workers' compensation layers.

The contract included numerous reinsurance coverages within a single contract. Those included along with the retro layer were other excess layers of liability and workers' compensation reinsurance. Reinsurance premiums for each of the other reinsurance coverage layers within the agreement were calculated as a fixed percentage of underlying premiums. Since losses in excess of the premiums appear reasonably possible for all reinsurance coverages except for the retro layer, the reinsurance contract appeared to provide for risk transfer on all portions except the retro layer.

SSAP (Statements of Statutory Accounting Principles) No. 62 provides that reinsurance agreements must include the transfer of risk. If a reinsurance agreement does not transfer the components of insurance risk, all or part of the agreement should be accounted for and reported as deposits. Paragraph 34 of SSAP 62 provides an explanation of deposit accounting for these agreements. Furthermore, SSAP No. 75 superseded paragraph 34 of SSAP No.62.

Taylor-Walker accounted for the retro layer using the deposit accounting method as indicated in SSAP 75 and has estimated the adjustment to the Company's surplus to be a reduction in the amount of $1,187,606. This adjustment would also require the Company's income statement to be adjusted accordingly. However, as the amount of reduction to surplus did not meet the materiality level established for this examination, the Company's annual statement amount has been reflected on the balance sheet of this examination.

It is recommended that the Company correctly account for all transactions relating to the retro layer of reinsurance in future annual statements using the guidelines for deposit accounting as stated in SSAP No. 62 and SSAP No. 75.

SUMMARY, COMMENTS, AND RECOMMENDATIONS

Summary

The results of the examination disclosed that as of December 31, 2002, the Company had admitted assets of $236,225,867, liabilities of $123,601,837, and surplus as regards policyholders of $112,624,030. The Company was in compliance with the minimum capital and surplus requirements of Idaho Code Section 41-313.

Comments and Recommendations

Page Description

9. Insurance Holding Company System. The Company's Form B Holding Company Registration Statements for the period under examination were reviewed. It was noted in the Form B, dated May 23, 2003, that the ownership percentages reflected in the organizational chart was incorrect for Farm Insurance Brokerage Company and Farm Bureau Insurance Service Company. Also the Form B did not reflect Farm Bureau Insurance Service Company's acquisition of 1/3 interest in Western Computer Services, Inc.

   Schedule Y, Part 1 of the Company's 2002 annual statement reflected an incorrect percentage of ownership for Farm Bureau Insurance Service Company and did not reflect Western Computer Services, Inc. as a member of the holding company system. It is recommended that the Company be more diligent in completing Schedule Y and its Form B filing.

14. Management Agreements. It was determined during this examination, these agreements need to be filed and approved by the Department in accordance with Idaho Code Section 41-3807(2). Subsequently, the Company filed these agreements along with the allocation exhibits for the 2003 year for the following affiliated companies: Western Community

Insurance Company, Farm Bureau Finance Company, Western Community Investment Company, Farm Bureau Insurance Service Company of Idaho, and Farm Insurance Brokerage Company, Inc. Per the Department's letter, dated September 29, 2003, the agreements and the related allocation exhibits were approved. In the future, it is recommended that the Company file such agreements and amendments in accordance with Idaho Code Section 41-3807(2).

16. Lease Agreements-Western Community Investment Company. The lease agreements had not been filed with the Department as required by Idaho Code Section 41-3807(2). Subsequently, the Company filed these agreements with the Department. Per the Department's letter, dated March 1, 2004, the agreements were approved. It is recommended, in the future, that the Company file the agreements and that all agreements should be filed at least thirty days prior to the agreement's effective date.

43. Losses & Loss Adjustment Expenses. The Taylor-Walker actuarial review indicated that a portion of the Excess Liability and Workers' Compensation reinsurance agreement was considered financial reinsurance. The agreement included a "retro layer" of liability coverage, covering the working layer from $300,000 to $550,000 per occurrence. In addition to the retro layer, the agreement also included coverage for other liability and workers' compensation layers.

The contract included numerous reinsurance coverages within a single contract. Those included along with the retro layer were other excess layers of liability and workers' compensation reinsurance. Reinsurance premiums for each of the other reinsurance coverage layers within the agreement were calculated as a fixed percentage of underlying premiums. Since losses in excess of the premiums appear reasonably possible for all reinsurance coverages except for the retro layer, the reinsurance contract appeared to provide for risk transfer on all portions except the retro layer.

SSAP (Statements of Statutory Accounting Principles) No. 62 provides that reinsurance agreements must include the transfer of risk. If a reinsurance agreement does not transfer the components of insurance risk, all or part of the agreement should be accounted for and reported as deposits. Paragraph 34 of SSAP 62 provides an explanation of deposit accounting for these agreements. Furthermore, SSAP No. 75 superseded paragraph 34 of SSAP No.62.

Taylor-Walker accounted for the retro layer using the deposit accounting method as indicated in SSAP 75 and has estimated the adjustment to the Company's surplus to be a reduction in the amount of $1,187,606. This adjustment would also require the Company's income statement to be adjusted accordingly. However, as the amount of reduction to surplus did not meet the materiality level established for this examination, the Company's annual statement amount has been reflected on the balance sheet of this examination.

It is recommended that the Company correctly account for all transactions relating to the retro layer of reinsurance in future annual statements using the guidelines for deposit accounting as stated in SSAP No. 62 and SSAP No. 75.

CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Company's officers and employees in conducting the examination.

In addition to the undersigned, David W. Emery, CFE, Senior Financial Examiner, and Taylor-Walker & Associates, Inc., Actuarial Consultants, participated in this examination.

Respectfully submitted,

Dean Cassens

Dean Cassens, CFE
Examiner-in-Charge
Department of Insurance
State of Idaho

AFFIDAVIT OF EXAMINER

State of Idaho
County of Bannock

Dean Cassens, being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the affairs and financial condition of Farm Bureau Mutual Insurance Company of Idaho for the period from January 1, 1999, through December 31, 2002, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief, and that any conclusions and recommendations contained in this report are based on the facts disclosed in the examination.

Dean Cassens
Dean Cassens, CFE
Senior Financial Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 21st day of June, 2004, at Pocatello, Idaho.

MICHELLE B. KASE
NOTARY
PUBLIC
STATE OF IDAHO

Michelle B. Kase
Notary Public

My Commission Expires: 2/15/08